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STATE FOR WHA/CEN, WHA/EPSC, DRL/IL, EB, AND OES
STATE PASS TO USAID FOR LAC/CEN
STATE PASS OPIC, EXIM, USTR
STATE PASS TO USED IDB, USED WB, USED IMF
USDOC FOR 3134/USFCD/IOI/WH/RD/DLUTTER
USDOC FOR 4320/IEF/WH/OMCB
USDOC FOR 4322/ITA/MAC/WH/OLAC/EJAFFEE
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SUBJECT: HONDURAN ECON HIGHLIGHTS: FEBRUARY 2003

REFS: A) TEGUCIGALPA 00606

TOPICS:

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IMF Criteria

1. As part of the GOH efforts to reach an agreement with the IMF, an executive decree was issued by President Maduro to reduce public expenditure in salaries to the equivalent of 10.1 percent of the GDP. The measures include: freezing public sector employee wages for all of 2003, excluding teachers and employees covered by collective bargaining agreements; cancellation of 60 percent of positions vacant at the end of 2002; freezing of up to 50 percent of vacant positions as they occur this year; reducing representation expenditures by 85 percent; reducing travel expenditures by 85 percent; limitations on cellular phone and vehicle privileges; and centralized management of government procurement.

Coffee Production Declines

2. The Honduran Association of Coffee Producers has estimated a loss of 40 percent of the coffee harvest for the 2002-2003 season from 4.2 million sacks in 2001-2002 to 2.1 million sacks in 2002-2003. The association has attributed the decline in production to cold weather that impacted the coffee zones. The association has also attributed the decline to torrential rains that destroyed roads, which prevented workers from maintaining coffee groves and transporting the harvest to the market. Coffee producers are also being hurt by continually low international coffee prices. The president of the Honduran Institute of Coffee requested financing from the GOH to aid growers in their recovery from losses. There is pessimism that the government will have the financing to aid growers and international institutions are being asked for assistance.

Minimum Wage Negotiation Ends in Standstill

3. After bilateral negotiations between labor confederations and businesses ended without an agreement, the GOH announced plans to intervene in establishing the minimum wage for 2003. Labor unions were asking for an increase of 25 percent to the base minimum wage while businesses made a counter proposal of 5 percent. A proposed minimum wage will be presented to the president, which will likely be approved by him by the end of March. Minister of Labor German Leitzelar has stated that to make a fair decision on the issue, the government will consult with the Central Bank and other ministries. Leitzelar said he believes that the government's decision will be criticized by labor unions and businesses, but will benefit the nation as a whole. LabAtt spoke to Leitzelar's assistant March 7, who confirmed press reports, but said that the timing of the final decision was up to the President.

Record Fuel Prices Induce GOH to Reduce Fuel Taxes

4. In February, Honduran fuel prices increased to record levels for the following grades of fuel per gallon; Super 48.82 lempiras, Regular 47.21 lempiras, Diesel 38.02 lempiras, Kerosene 33.22 lempiras. On February 27, the GOH adjusted the calculation of ad valorem fuel taxes so that the base price used in the calculations will be capped at USD 30 per barrel. The change will mitigate the volatility in tax revenues and temper the

effects of future increases in the world price of oil. With the approval of the decree, fuel prices were lowered by the following amount; Super 3 lempiras, Regular 1.81 lempiras, Diesel 12.05 lempiras, Gas LPG 2.63 lempiras, and Kerosene 1.39 lempiras. The GOH previously expected to earn 5 billion lempiras from fuel taxes in 2003 and expects to lose 1 billion of this with the approval of the decree.

----- Looming Retaliatory Tariffs on Nicaraguan Products

15. Honduran hopes were dashed when Nicaraguan legislators apparently balked at the proposed rescinding of Nicaragua's 35 percent tariff sent to the National Assembly on February 11 by President Enrique Bolaos. The Nicaraguan National Assembly implemented the tariff called the "Patriotic Tax" in December of 1999, after Honduras ratified a treaty with Colombia recognizing a Nicaraguan-Colombian maritime dispute as a Colombian possession. The Honduran Association of Industries (ANDI) has estimated that the tariff has affected 55 business industries at a cost of USD 210 million. In 1999, when the tariff was implemented Honduran exports to Nicaragua totaled USD 74 million, by 2001 they had decreased to USD 23 million and are continuing to decline. President Maduro announced, on March 3, that he would introduce legislation to the National Congress that imposes retaliatory tariffs of 35 percent on Nicaraguan goods, and possibly on Nicaragua's use of Puerto Corts to distribute its products (full report in Ref A).

----- Papaya Exports to the United States

16. For the first time, Honduras will export 600,000 tons of f papaya to the United States. To produce better quality the seed of the papaya has been genetically modified by the Agricultural Institute of Science and Technology. There are currently 28 orchards and in March papaya growers expect a harvest of 30,000 tons per hectare. By the end of June 2003 they hope to have increased production to 100 orchards. The papaya export is being facilitated by a USAID assisted hot water treatment project (to rid the papayas of medfly infestation).

----- Cocoa Harvest to Decline by 70 percent

17. This year's cocoa harvest is expected to decline by 70 percent due to the Monilia plague that has destroyed most of this year's crop. The decline will affect 30,000 people who depend on cocoa production and cost the economy a loss of 50 million lempiras (USD 2.9 million). The industry is looking for government and international aid to obtain better fertilizers, fungicides, and develop new varieties that are resistant to diseases.

----- Impact of Illegal Logging on National Economy and Poverty

18. A World Bank study, which investigated illegal logging in Honduras and Nicaragua, addressed the impact it has on the national economy and poverty. The investigation concluded that the governments of Honduras and Nicaragua lose USD 300 million to USD 1 billion annually from illegal logging in national, private, and public forest. These losses include profits not received by the governments for the sale of the wood and tax revenue not received. Other economic losses that are not quantified are lower per capita income for the workers and lower levels of literacy and life expectancy. The study determined that in Honduras 70 to 80 percent of the annual cutting of hardwood and 30 to 50 percent of the pine harvesting is illegal. It was estimated that annually USD 50 to USD 70 million, is earned from illegal logging in Honduras, which has flourished due to the reluctance of local officials to enforce logging laws.

19. The study stated that companies who illegally log obtain the cooperation of local officials through bribery. To resolve this problem, several laws have been proposed that will make corruption less prevalent and use locals in detecting and reporting illegal logging activity. Recent efforts by Honduran authorities to stop illegal logging have been met with resistance. On February 25, when authorities attempted to stop illegal logging in Nahuaterique a town next to the El Salvadorian border, 7 police and 4 military officials were held by close to 400 local residents. This incident shows the difficulties the GOH faces in stopping illegal logging because it is sometimes the only source of income in the region.

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